Examining Political Connections to Study Institutional Change: Evidence from Two Unexpected Election Outcomes in South Korea

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ABSTRACT

We argue that the analysis of multiple political connections in an event study framework can improve the study of institutional change. Based on a unique dataset of multiple political relationships of 4,936 South Korean board of director members, we show that the large business conglomerates, the chaebol, did not benefit from the unexpected conservative election victories in the 2012 South Korean parliamentary and presidential elections. By contrast, personal connections to candidates and to the opposition party were still considered to matter for small firms. Our findings suggest that Korea's political economy has evolved into a hybrid regime in which the political power of large multinational corporations is limited, but the influence of political connections is still relevant for smaller firms. The corruption scandal that led to the impeachment of President Park in 2017 and the long-term development of market capitalization appear to be congruent with the results of our study.

JEL classifications: D27, G14, N2.

Keywords: Political Connections, Networks, Rent-Seeking, Corruption, Institutional Change, Event Study Methodology, South Korea, Chaebol, Political Economy

1. Introduction

Government has the discretionary power to implement policies with far-reaching economic consequences, and therefore, firms have an incentive to invest economic resources in rent-seeking activities to receive favorable policies (Buchanan and Tullock 1962; Krueger 1974; Mitchell and Munger 1991; Stigler 1971). A large canon of studies evaluates whether politically connected firms are more likely to receive desired outcomes, such as easier access to credit, bailout support, or government procurement contracts (e. g., Charumilind et al. 2006; Dinc 2005; Faccio 2006; Faccio et al. 2006; Khwaja and Mian 2005; Onder and Ozyildirim 2011).

However, a major problem of these studies is to accurately identify the net effect of political connections on corporate profitability. For instance, politically connected firms also tend to have lower accounting standards (Chaney et al. 2011), their managers tend to have less professional experience (Fan et al. 2007), and unconnected firms might benefit vis-à-vis politically connected firms from policy reforms, such as financial liberalization (Chan et al. 2012). Yang and Zhang (2015) find that the benefits of political connections on the performance of Chinese mergers and acquisition is not straightforward but contingent on other factors. Siegel (2007) shows that an unexpected change in government could turn beneficial political ties into a liability and vice versa in South Korea. Thus, it remains questionable whether firms benefit overall from its political ties. A reversed causality is also conceivable if governments are more likely to cultivate connections with successful businesses in order to learn from them. In such a scenario, the finding that government connections turn out profitable for business would be spurious (Roberts and Whited 2013).

In order to overcome these identification problems, a growing number of studies utilizes the event study framework in order to measure the overall value of corporate political connections by accounting for changes in political processes. An event study evaluates how stock market investors react to unexpected political events – such as a surprising election outcome. Event studies are based on the assumption that the stock market should reflect the expected value of current and future political decisions. Unexpected changes in political power or changes in the probability of political events should affect a firm's equity price, as market participants update their investment decisions to new and relevant information (Bailey 2005: 64; Bechtel and Schneider 2010: 210; Shon 2010: 259-60). Thus, an event study has the unique feature that it can isolate certain events from other unobserved intervening factors, and it provides quantitative estimates of the monetary effect.

A robust consensus of previous event studies is that political connections matter for corporate profits: The stock returns of firms with political connections respond systematically to political events in places like Brazil (Claessens et al. 2008), Indonesia (Fisman 2001), Germany (Bechtel and Füss 2010), Malaysia (Johnson and Mitton 2003), or the United States (Acemoglu et al. 2016; Gaikwad 2013; Goldman et al. 2009; Jayachandran 2006; Shon 2010). But event studies based on only one political connection could generate biased estimates and provide an inconclusive picture on the impact of corporate-political connections in an economy. Corporations could diversify political connections in order to minimize political risk. The corporate strategies in politics are likely to be shaped by institutional features (Bernhard and Leblang 2006; Grier and Munger 1993; Roberts 1990b; Wilts 2006). Long-term institutionalized ties to government tend be more beneficial in coordinated market economies, whereas short-term ties appear to be more helpful in liberal market economies (Hillman and Hitt 1999). Personal political connections also

appear to be more beneficial in developing countries with weak institutions relative to post-industrial countries with robust political constraints (Bernhard and Leblang 2006; Faccio et al. 2006; Fisman 2001). Thus, not controlling for different types of political connections might lead to wrong inference. Examining several connections also provides information on the structure of a country's political economy and its evolution. Institutional change is a salient topic in the political economy literature (Hall and Thelen 2009; Streeck and Thelen 2005), but no quantitative mechanism to detect institutional change is readily available so far (Capoccia 2016).

We argue that examining multiple political connections via event studies can fill this gap. We illustrate the usefulness of this approach by evaluating the influence of corporate-political ties in South Korea (thereafter Korea). The state-led development of Korea's political economy has been based on long-term ties between the conservative government and large family-owned business conglomerates, the chaebol (Amsden 1989; Kang 2002). As a consequence of the 1997 Asian Financial Crisis, the new progressive government introduced market reforms to curtail the power of the chaebol. But the former CEO of Hyundai, Lee Myung-bak, won the presidential election of 2007 on a pro-business platform and empirical research suggests that political connections still appear to matter for corporate profits (Schoenherr 2018; Siegel 2007). Scholars have debated in recent years whether the Korean political economy transformed into another "Chaebol Republic" (Kalinowski 2009) or a "Hybrid Regime" (Pirie 2012). According to the former, the chaebol control politics through direct political ties, whereas the latter argues that the state has the autonomy to push its own agenda in government-chaebol relations.

We conduct the first event study for Korea in order to evaluate how the stock returns of politically connected firms react to the unexpected victories of the conservative New Frontier Party (NFP) and its presidential candidate, Park Geun-hye, in the parliamentary election of April 2012

and in the presidential election of December 2012 over the liberal Democratic United Party (DUP) and its presidential candidate, Moon Jae-in. In contrast to previous event studies that only include one measurement for political connections, we include the following four measurements of political connections based on a unique hand-coded dataset: 1) Being part of Korea's 16 chaebol groups, 2) having political, social, or family ties with the 2012 presidential candidates Park Geun-hye (NFP) and Moon Jae-in (DUP), and the incumbent President Lee Myung-bak (NFP), 3) having connections to the two major political parties of the candidates, and 4) having connections to government agencies. This research design allows us to draw inference about the relevance of various political connections within the institutional framework of Korea's political economy, and answer some of the open questions in the political economy literature about the role of the state in Korea's economy.

Our empirical findings suggest that the chaebol did not benefit from the unexpected conservative election victories. But relationships to the government through direct candidate and partisan ties still appear to matter for smaller corporations. Thus, we show that market participants did not consider the discretionary power of a unified conservative government with a history of pro-chaebol policies to be sufficient for the profitability of big business groups. The results indicate that Korea's political economy has evolved into a Hybrid Regime, in which the state retains a considerable degree of autonomy. The development of corporate market values during the Park administration as well as the corruption scandal of 2016-17 – which was described as "bigger than Watergate" (Fifield 2016) and eventually led to the impeachment and imprisonment of President Park – appear to be congruent with the results of our study.

2. Using multiple political connections to improve the leverage of event studies

Previous event studies show that the stock returns of politically connected firms respond systematically to unexpected political events (Acemoglu et al. 2016; Bechtel and Füss 2010; Claessens et al. 2008; Fisman 2001; Gaikwad 2013; Goldman et al. 2009; Herron et al. 1999; Imai and Shelton 2011; Jayachandran 2006; Johnson and Mitton 2003; Knight 2006; Roberts 1990a, 1990b; Shon 2010). These studies only use a singular political connection to estimate monetary benefits. The measurement of political connections is either based on personal acquaintance, policy platforms, or monetary donations. They neither control for additional ties nor do they conceptually justify the selection of a certain political connection.[1] However, the ad hoc use of a particular political connection is problematic for at least three reasons:

First, from the perspective of a firm, it could be more beneficial to diversify political connections. The benefits of political ties are conditional on changes of the political environment, and previously profitable political connection can quickly turn into a liability if there is a turnover in power (Burt 1997; Jäger 2013: 121-3; Siegel 2007). In order to hedge against the risk of unexpected political events, firms could either cultivate ties with different political parties and candidates, or build political linkages at various institutional veto points.

Second, the significance of political connections systematically varies across different institutional features of countries. Bernhard and Leblang (2006: 5) argue that institutional configurations, which insulate economic policy-making from direct political control, reduce the impact of political connections. Thus, institutional arrangements shape the level of activity and strategies of corporations in the political arena (Grier and Munger 1993; Roberts 1990b; Wilts

[1] Appendix Table 1 surveys the methodology and results of previous event studies.

2006). The varieties of capitalism literature (Hall and Soskice 2001) also suggests that the optimal political-linkage strategy for corporations depends on the particular features of a political economy in which they operate. Hillman and Hitt (1999: 830) argue that the institutional environment in coordinated market economies induces firms to develop long-term relationships, because such systems emphasize cooperation among institutionalized bargaining partners. By contrast, liberal market economies tend to have characteristics that give rise to a system of competing interest groups. Short-term strategies of firms for single issues, such as forming political action committees (PACs), tend to be more prevalent in liberal market economies. By contrast, in economies based on state-led development, bureaucrats have a strong influence on the policy-making process, and could be endowed with the discretionary power to interpret laws in favor of particular firms (Lim 2010: 192). Yet, only a few studies have taken the relationship between corporations and civil servants into account (Goldman et al. 2009). Furthermore, direct personal connections could be more beneficial in economies with weak institutions that fail to prevent personal rent-seeking (Faccio et al. 2006). Consequently, conducting an event study without considering the institutional environment could lead to the wrong inference.

Third, examining several connections might also increase the scientific leverage of event studies: Event studies could allow us to draw inference about the structure and changes of a country's institutional framework. The influence of institutions on politics is not self-evident but regularly contested. As summarized by Thelen (2012: 138), there is a "vigorous debate in the political economy literature" on the trajectory of capitalist institutions, particularly to which extent global market pressures are causing a convergence of capitalist models for firm networks and collective bargaining (Hall and Thelen 2009; Simmons and Elkins 2004; Streeck and Thelen 2005).

Yet, a major problem of institutional analyses is that the detection of institutional change remains less developed (Capoccia 2016). The event study methodology with its qualities of isolating unexpected political events from other intervening factors could provide a unique insight for studying institutional change. An event study can reveal whether market participants consider an institutional feature as important for corporate profits. For instance, if a hypothesis claims that party X in government would transform the economy to favor big business, then an unexpected political event, such as a surprise election victory of party X, should be associated with positive returns for large corporations in an event study. By contrast, detecting no positive returns falsifies the hypothesis as investors do not consider the influence of party X in government to be relevant for increasing the profitability of big business.

3. The contested evolution of government-corporate relationships in Korea

The development of Korea's political economy has received extraordinary academic attention, as it is "perhaps the most dramatic case of all of an underdeveloped country turning itself into an industrial powerhouse in a mere third of a century" (Williamson and Haggard 1994: 544). Korea is an example of successful state-led development with close ties between the government and large family-owned business groups (Amsden 1989). Initially, the relationship between bureaucrats and corporate elite was praised as a role model of the developmental state (Evans 1995; Rodrik 1995), but the Asian Financial Crisis of 1997 changed this evaluation as corporate-political ties were now perceived as the cause of the economic downturn (Kang 2002).

The relationship between government and chaebol has evolved over time (Kim and Park 2011: 265-6). During the initial development stage of the military regimes of General Jung Hee

Park (1961-1979) and General Doo Hwan Chun (1979-1987), "the state was master, and companies obeyed" (Siegel 2007: 628): The state intervened in the economy to promote large conglomerates, which were directed to diversify and develop new sectors (Chang 2003: 54). During the democratization phase of 1987 to 1997, however, business groups increasingly became hegemonic in their relationship with the state. Some scholars label this period as Chaebol Republic (e. g., Kalinowski 2009: 299; Kim 1999; Lim and Jang 2006: 445). The ruling conservative party[2] was dependent on large donations by big business in order to be successful in competitive elections. The chaebol provided funds for conservative parties and think tanks, and were part of the conservative party's financial committee (Kim 2007: 28-30). In exchange for their financial support, large business groups became more successful in demanding favorable legislation. The government liberalized the access of the chaebol to foreign loans, and restricted foreign investment to protect the chaebol (Fields 2012: 54-5; Lee et al. 2002). These policies created a moral hazard problem; the chaebol accumulated an excessive debt burden without being subject to market discipline. This unsustainable practice contributed to the Asian Financial Crisis in 1997.

The Asian Crisis and the first peaceful transfer of power between political parties "radically altered [the] government-chaebol relationship" (Lee 2008: 442). The reform of government-chaebol relationships was a major policy agenda of the progressive Presidents Kim Dae-jung (1998-2003) and Roh Moo-hyun (2003-2008) (Zhang 2010). The government did not return to direct economic intervention, but reconfigured its role in the market as a regulatory state, which promoted corporate governance and market reforms in order to limit the power of the chaebol

[2] The conservative party has frequently changed its name as a result of mergers and leadership changes. During General Park's rule, the party was named Democratic Republican Party. Later changes in the party label were Democratic Justice Party in 1980, Democratic Liberal Party in 1993, New Korea Party in 1995, Grand National Party in 1997, and Saenuri Party or New Frontiers Party from February 2012 until February 2017, when it was renamed to Liberty Korea Party as a consequence of Park's corruption scandal.

(Kalinowski and Cho 2009: 223-4; Park 2011: 591). The chaebol, however, still had the market power and corporate resources to adapt to the new regulatory framework, allowing them to actually benefit from the market reforms in the long run (Kalinowski 2009: 296-7). The value of political ties remained significant during the Kim Dae-jung administration (Siegel 2007: 657). Kalinowski (2009) argues that the victory of Hyundai's former CEO, Lee Myung-bak, in the presidential election of 2007 has turned Korea into a second Chaebol Republic. The Lee administration enacted several policies and a fiscal stimulus package in the wake of the global financial crisis that were tailored to the interest of the chaebol (Kalinowski 2009: 298). By contrast, Pirie (2012: 424) argues that "it is over simplistic to see the narrow sectoral interests of chaebol as entirely dominating over issues relating to the structural competitiveness of the wider economy." Instead, the contemporary Korean political economy has evolved into a Hybrid Regime, in which the state has retained autonomy over the chaebol (Pirie 2012: 429).

As the degree of political influence of the chaebol is contested in Korea's political economy, so are the channels of effective corporate-political relationships: The chaebol became involved in the legislative process through councils, committees, and commissions. They also recruited retired state officials as directors. These connections proved to be effective traditional lobbying resources for business (Kim 2007: 22-7). Yet, other scholars highlight that such direct ties often provoke negative publicity (Kim 2007: 33-4). Interviews with over 100 Korean and multinational executives between 2000 and 2006 suggest that the business elite would increasingly avoid direct ties to politics (Siegel 2007: 629). Thus, it remains questionable whether firms can still benefit from direct political connections.

The discussion of the evolution of government-business relationships gives rise to the following research questions that remain contested in the study of Korea's political economy:

- *Did the chaebol benefit from a unified conservative administration?* (**Chaebol Republic Hypothesis**)
- *Did corporations with political connections benefit from a unified conservative administration?* (**Relational Hypothesis)**

We conduct event studies for the Korean parliamentary election of 11 April 2012, and for the presidential election of 19 December 2012 to evaluate the two research questions. Event studies require that there was uncertainty about the outcomes of both elections. If the outcomes of the elections were completely predictable, market participants would have included this information in their investment decisions before the elections took place, rendering an event study unfeasible (Bailey 2005: 64; Bechtel and Schneider 2010: 210; Shon 2010: 259-60).

The outcomes of both elections – victories of the conservative NFP with an absolute majority of legislative seats, and of NFP's presidential candidate Park – could not have been expected ex ante. Public opinion polls before the parliamentary election saw a head-to-head race between NFP and DUP without projecting a presumable winner (Jackson 2012). Not only was the election victory of the NFP unexpected but the margin of victory was also a surprise, as the NFP was able to capture an absolute majority in the legislature, thus allowing the NFP to govern without a coalition partner (The Economist 2012a). As summarized by the Council of Foreign Relations "the ruling Saenuri Party won a surprise majority in South Korea's National Assembly elections last month. This victory went against all expectations" (Woo 2012). Similarly, the presidential election between Park and Moon was a close race that was "too close to call" before. "Final polls, conducted a week before the ballot, put the candidates at a statistical dead heat" (Rauhala 2012).

In addition, investors were likely to believe from past records and campaign promises that the outcome of the two elections should matter for the chaebol: As described by Lee (2008: 439), "contemporary chaebol reforms are deeply politicized," and the reform of the political influence of the chaebol was a predominant topic in both election campaigns. The DUP's frontrunner for the parliamentary election, Han Myeong-sook, announced her clear opposition to the chaebol by declaring that the chaebol are "the poison in the Korean economy" (Kim and Park 2012). The DUP's presidential candidate, Moon Jae-in, called Korea a "jungle economy" with "unfair privileges" for the chaebol, and campaigned on antitrust reforms (The Economist 2012b). Park Ju-min (2012) maintains that the election of Park means that the chaebol "will be breathing a sigh of relief."

As a consequence, it is possible to isolate the reaction of stock market investors to the conservative election victories. The **Chaebol Republic Hypothesis** would be confirmed if the Chaebol significantly benefitted from the election outcomes. The **Relational Hypothesis** would be confirmed if corporations with direct political connections benefitted from the election outcomes.

4. Empirical analysis

4.1 Method of the event study and data description

The dependent variable of our study measures the abnormal returns of up to 723 companies that were traded in the KOSPI market after both the parliamentary election of 11 April 2012 and the presidential election of 19 December 2012. The event study methodology consists of an event

window, which estimates the actual returns during the event, and an estimation window, which estimates the normal returns in the previous period as shown by Figure 1.

<<< **FIGURE 1** >>>

The event windows for the parliamentary election ranges from the end price of 10 April to the starting price of 12 April, and for the presidential election from the end price of 18 December to the starting price of 20 December. These dates are chosen because the elections took place on 11 April and 19 December, and the Korean Exchange was closed on election days. As robustness tests, the event window is extended to include the end price of the first after-election trading day (12 April and 20 December).

The estimation window contains 120 trading days prior to each event window as suggested by MacKinlay (1997: 15). The equation for the calculation of daily stock returns is:

$$r_i = \ln(P_t) - \ln(P_{t-1}) * 100$$

Where r_i are the returns for company i, P_t is the end price of period t and P_{t-1} is the end price of period t-1. The outcome is multiplied by hundred to obtain returns as interpretable percentage rates.

Following Bechtel and Schneider (2010: 211)'s suggestion to utilize several assets to capture investing opportunities across different portfolios, the multiple regression model includes the returns of the Kospi 100 index r_{kospi}, the Standard & Poor's 500 index from the previous day r_{sp}, the Won-US Dollar exchange rate r_{won}, and the Nikkei 225 index r_{nikkei} as explanatory variables to estimate normal returns. This yields the following equation:

$$r_{it} = \alpha_i + \beta_{kospi} r_{kospi} + \beta_{sp} r_{sp} + \beta_{won} r_{won} + \beta_{nikkei} r_{nikkei} + + \in_{it} =$$

$$r_{it} = \alpha_i + \sum \beta_i r_t + \in_{it}$$

In the next step, the abnormal returns are the differences between the estimated normal returns of the multiple regression model and the observed returns in the event window:

$$AR_{it} = \sum_{t=2}^{T} AR_{it} = \in_{it} = r_{it} - (\alpha_i + \sum \beta_i r_t)$$

Where r_{it} are the returns for company i of period t and $(\alpha_i + \sum \beta_i r_t)$ are the predicted normal returns. The error term $\in_{it}$ is the abnormal return AR_{it} and denotes the difference between the predicted normal returns and the actual returns of the event window. Positive abnormal returns suggest that investors expect a firm to benefit relatively from the parliamentary and presidential elections whereas negative returns indicate a relative loss.

A chaebol-dummy is the main explanatory variable to test Chaebol Republic Hypothesis. The information on chaebol membership is obtained from the 2012 annual report of the Korea Fair Trade Commission (KFTC). The KFTC annually identifies the 30 largest business groups, which are subject to group-affiliated investment restrictions. According to the KFTC, a business group is defined as "a group of companies of which more than 30% of shares are owned by the group's controlling shareholder and its affiliated companies." Consequently, most studies use the top-30 threshold to identify large business groups (Kato et al. 2007). From the KFTC's top-30 list, we exclude non family-owned businesses or government-owned corporations, leaving us with a list of 16 business groups to define our chaebol variable. These 16 chaebol are, as ordered by size: Samsung Group, Hyundai, SK Group, LG Group, Lotte, GS Group, Hanjin, Hanwha, Doosan,

STX, CJ Group, LS Group, Kumho, Shinsegae, Dongbu, and Daelim. In an additional analysis, the chaebol variable is also split into 16 dummy variables for each chaebol group in order to test for intra-chaebol differences.

Three relational variables measure direct corporate connections to major politicians, political parties, and government agencies. These connections are relevant for testing the Relational Hypothesis. The connections are as follows, ordered by the closeness to politics: 1) Ties to the presidential candidates and incumbent President Lee: The dummy variables "Park-Related Connection", "Moon-Related Connection", and "Lee-Related Connection" measure whether a firm had a political, social, or family connection with NFP candidate Park Geun-hye, DUP candidate Moon Jae-in, and incumbent President Lee Myung-bak of the NFP. For example, Park's cousin-in-law was the president of Dayou Smart Aluminum and Dayou A-Tech. Shim Kook-woong, a former diplomat and director of Daesung Industrial, publicly endorsed Park for President. According to Korea's Yonhap News Agency, there were about 80 companies traded on the KOSPI and KOSDAQ that had perceived or actual personal connections to the presidential candidates (Lee 2012). We obtained the company list by researching various Korean online news sources. We identified 19 KOSPI firms with a personal connection to Park and twelve to Moon.[3]

We also compiled the personal and political connections of firms to then President and former Hyundai CEO Lee Myung-bak in a similar manner. After assuming office, Lee initiated a massive reshuffle of the national administration. Many personal allies from Lee's corporate

[3] In Appendix Table 2, we conduct the empirical analysis with an alternative definition of personal connections to the presidential candidates. This broader definition is also based on covert corporate connections to the candidates. Connections based on rumors without any further evidence were removed. The variables are based on the political background information we obtained for all board members through various Korean Internet sources. In total, the alternative measurement includes 29 firms connected to Park and 12 connected to Moon. The statistical interpretation of the candidate-related variables does not change.

network were appointed to leading administrative positions or to state-owned firms. Lee's personal allies in government became known as "MB men" (Hankyoreh 2009). Anecdotal and empirical evidence suggests that policies of the Lee administration had a significant impact on politically-connected firms. For instance, President Lee's close ally, Kang Man-soo, was economic advisor, finance minister, and chairman of the state-run Korean Development Bank during the Lee administration. Kang was sentenced to five years and two months in prison for corruption. Kang used his position to provide state subsidies of 6.6 billion won (US$5.9 million) to a friend's biotech firm, and pressured another private firm to invest 4.4 billion won (US$4 million) into the same biotech firm (Yonhap News 2018). Schoenherr (2018) shows that there was systematic political favoritism during the Lee administration. He finds that firms with board members from Lee's personal network received significantly more government procurement contracts than non-connected firms. The increase in market value due to political connections sums up to nearly 20 percent, demonstrating that the value of political connections was substantial. Including the connections to President Lee enables us to evaluate whether these ties were also considered to be relevant for the upcoming Park administration by investors. There were 53 firms with personal ties to President Lee. However, nearly all "MB men" were replaced or stepped down in the early Park administration, suggesting that the value of these connections was limited to the Lee administration (Lee 2013).

2) Ties to the two major political parties. "NFP Connection" and "DUP Connection" measure whether a company was directly connected to the NFP of Park and President Lee, and the DUP of Moon. This is the case if members of a firm's board of directors previously held a higher positions in government departments, were party members, or were former members of parliament.

We identified 148 politically connected firms with board members who met at least one of these criteria.

3) Ties to government agencies: The variable "Government Ties" measures whether a firm's director had previously worked for a government agency or a government committee. This includes positions in the higher bureaucracy, participation in advisory, consultative and decision-making commissions of the government, or leading positions in quasi-government institutions, such as the KFTC, Korea Development Bank, or Korea Finance Corporation. Overall, there were 431 firms with board members who had previously worked in government agencies.

The relational measurements for connections to 2) political parties and 3) government agencies are based on the 2011 executive career dataset by the Korea Listed Companies Associations (KLCA) for 4,936 board directors. The KLCA annually surveys KOSPI firms and provides information containing a brief description of each board member's career background. In addition to these descriptions, we collected more information on the political background of board members through various Korean Internet sources (e. g., corporate homepages or documents from the general meetings of shareholders). The connections are only considered if they existed before the parliamentary and the presidential elections.

In addition to the chaebol and relational variables, other variables control for structural characteristics. We utilize the natural logarithm of the market capitalization in million US dollars as a measurement for "Firm Size," a firm's annual return of assets, and "Debt Ratio" is a firm's debt-to-asset ratio. The following sector dummies based on the Standard Industrial Classification (SIC) code are also included to control for sector-specific effects: "Agriculture, Forestry, Fishing", "Mining", "Construction", "Manufacturing", "Transportation, Communications, Electric, Gas and

Sanitary Services", "Wholesale Trade", "Retail Trade", "Finance, Insurance and Real Estate", and "Services". All data for the control variables are drawn from the Worldscope database, which is based on the corporate annual reports of 31 December 2011.

<<< **TABLE 1** >>>

Table 1 shows the descriptive statistics of the variables. According to t-tests of means, the chaebol did not receive significantly higher abnormal returns than all other companies. We also see that 2.5 and 1.6 percent of Korean companies had ties to the presidential candidates Park and Moon. These relationships were only formed among small firms, which were significantly smaller relative to all other companies at the 99 percent confidence level. About 4 percent of Korean companies were connected to President Lee and these companies were relatively larger based on a 99 percent confidence interval. The chaebol did not build relationships to President Lee relatively more often. While only a minority of companies sought direct political connections to candidates and parties, ties to government agencies are more common. On average, each company had 1.2 connections to government agencies. Chaebol groups were significantly more likely to have party connections to the opposition DUP (17 percent) and to government agencies (1.99) compared to non-chaebol companies.

Figure 2 shows the profitability after the presidential election of different combination of political connections that corporations could form in a network. Nearly all connections to Park turned out to generate positive abnormal returns, while the opposite is the case for Moon-connected firms. The majority of party connections to the NFP (DUP) had positive (negative) abnormal returns. The picture is mixed for connections involving President Lee and for firms that have formed connections to both political parties.

<<< FIGURE 2 >>>

4.2 Empirical results

Table 2 shows the results of the multiple regression analyses to explain abnormal returns after the unexpected election victories of Park in the presidential election (models 1-4) and the NFP in the parliamentary election (models 5-8). The analysis reveals that there are strong substantial effects for the two candidate-related variables after both elections. Firms that were connected to Park received average abnormal returns of up to 12.4 percent after the presidential election. The figure is around 6 percent for the parliamentary election. The average abnormal returns of Moon-connected firms decreased by about 5.4-8.5 percent. The coefficients are significant at the 95 percent confidence level. Connections to then President Lee turn out to be insignificant, suggesting that investors did not think that their value would transcend the Lee administration, which was subsequently confirmed by the replacement of most "MB men" by the Park administration.

<<< TABLE 2 >>>

The chaebol dummy appears insignificant across all models, indicating that the chaebol were unaffected by the conservative election victories. The NFP-connected variable is only significant for the closing price after the presidential election and for the opening price after the parliamentary election. DUP-connected firms are associated with a small significantly negative return of 0.6 to 1.0 percent in all eight model specifications. The picture for the Government Ties variable is inconclusive: For the presidential election, it appears to be significant at the 95 percent

confidence level for the end price of the first after-election trading day but only when the structural control variables are excluded; It is significant at the 99 percent confidence level in both models for the opening price after the parliamentary election but not for the closing price. There is no consistent significant result for the other control variables across all model specifications. The substantial higher R-squared value for the opening and closing price after the presidential election relative to the parliamentary election suggests that the relational variables capture more of the variation of the dependent variable for the former.

<<< FIGURE 3 >>>

In order to evaluate whether the significant impact of the DUP-related connection is contingent on firm size, we include an interaction term between the DUP-connection variable and firm size.[4] Figure 3 shows that the marginal effect of DUP-related ties is significant negative for small firms but disappears as firm size increases, suggesting that DUP connections only had a negative impact on abnormal returns among smaller firms. The interaction term for the opening price after the presidential election even suggests that large firms with DUP connections received positive abnormal returns after Park's victory. As discussed above, the candidate-related variables (Park-related and Moon-related) turn out to be highly significant, but only small firms had formed such ties. It thus appears that direct political ties have a limited impact in Korea's political economy as only small firms with political connections appear to be affected by the election outcomes.

[4] Appendix Table 3 shows the exact results when the interaction term of DUP-related and firm size is included in the four model specifications.

The chaebol dummy is insignificant in all model specifications. However, it is conceivable that there is intra-chaebol variation amongst the business groups. The regression analysis of Table 3 evaluates the stock performance of the 16 individual chaebol groups. The stock returns of most chaebol groups appear to be insignificant. Samsung Group appears to be the only chaebol group that have significantly benefitted from Park's victory in the Presidential election. Hanjin, LS Group, and Kumho were even significantly negatively affected in some model specifications. Non-political reasons, such as specific business news could have influenced these results. Particularly, the positive abnormal returns for Samsung Group might be influenced by the news shortly before election day that Samsung Group had become the global cell phone market leader for the first time (Lam 2012). The negative abnormal returns for LS Group might be due to the news about massive restructuring of the group's leadership, which occurred a few days before the election as a consequence of "low growth and low profitability" (Korea Joongang Daily 2012). As there are no consistent empirical results for individual chaebol groups across all empirical models, it appears that no chaebol group has systematically benefited from the outcomes.[5]

<<< TABLE 3 >>>

The insignificant results for chaebol companies cast doubt on the Chaebol Republic Hypothesis. The significant Park- and Moon-related variables for small firms, and the DUP-related measurement indicate that investors considered the unified conservative government to have the discretionary power and the intention to favor/discriminate firms with clear political ties. But the results of the interaction term suggest this effect disappears for larger firms with DUP-related ties.

[5] This interpretation remains valid in additional robustness tests that either disaggregating the Hyundai dummy into Hyundai Motor Group, Hyundai Heavy Industries Group, and Hyundai Group, or aggregating groups that share origin and connections via family links. Samsung Group, CJ Group and Shinsegae are grouped into one Samsung dummy, and LG Group, GS Group, and LS Group are merged into one LG dummy.

Therefore, the evidence for the Relational Hypothesis is mixed: The results suggest that state agencies did have some autonomy to provide corporate-specific benefits. However, this autonomy did not appear to be sufficient for the profitability of big business. Their political connections might be also beneficial but given their market size and international orientation, these rents were not considered high enough by market participants to have a significant impact on the stock returns of large corporations.

In summary, the results show that Korea's political economy has indeed evolved from a strong corporate-political partnership to a Hybrid Regime as argued by Pirie (2012). The conservative government does not appear to be under the control of the chaebol, and personal connections to political leaders only seem to matter for the profitability of smaller firms.

4.3 The Park administration and the 2016-17 political scandal

The political scandal of 2016-17 – which caused mass protests and led to the impeachment and imprisonment of President Park – appears to be congruent with our findings. Park helped her long-term confidante, Choi Soon-sil, to coerce over 50 firms, including chaebol companies, to donate over US$65 million to her non-profit foundations, which she diverted for personal gain (The Guardian 2016). Public opinion did not perceive the chaebol as victims but as collaborators in the Choigate corruption scandal.[6] Yet, the Constitutional Court ruled that it was President Park who infringed on the rights of business. President Park forced Samsung to pay US$18.6 million to Choi's company and to gift a US$900,000 horse in order to support the equestrian training of

[6] The heir and acting chairman of Samsung Group, Lee Jae-yong, was found guilty of corruption and sentenced to five years in prison in August 2017. An appeals court reduced the sentence and eventually suspended it in February 2018 (Sang-Hun and Zhong 2018).

Choi's daughter. A former official at the Korean Equestrian Federation testified at the court hearing that Samsung appeared to let "Choi Soon-sil do what she wanted almost 100%" (Jeong 2017). In other cases, Park pressured Hyundai Motor Group and KT Corporation to award an advertisement contract of US$5.2 million to Choi's PR firm Playground Communications and a supply contract of US$931,000 to KD Corporation. KD Corporation is run by the father of a friend of Choi's daughter (Hankyoreh 2016). Moreover, Park pressured CJ Group to remove its vice chairwoman Lee Mie-kyung, allegedly for producing TV content favorable of the opposition. Lee Mie-kyung is the granddaughter of Samsung founder Lee Byung-chul as well as the sister of Samsung's acting chairman Lee Jae-yong (Jo 2016).

Choigate shows that the government is not the subordinate in relations with big business. Instead, it appears that the government has the autonomy to impose an own agenda on the chaebol, and the Park administration used this power to favor the small-scale business activities of personal associates. Big business might ask for favors in return and lobby for favorable government policies. But such a relationship comes closer to a Hybrid Regime than to a Chaebol Republic.

An additional analysis of the percentage changes in year's end market capitalization during the Park administration from 2012 to 2016 also suggests that Korea has not turned into a Chaebol Republic. A strong increase in market capitalization indicates that companies were profitable and are expected to succeed in the future. On average, market capitalization increased by 90.9 percent from 2012 to 2016, and a t-test of means suggests that the average increase for chaebol companies was insignificantly lower (78.6 percent).

<<< TABLE 4 >>>

Table 4 shows the results of regression analyses that uses the same explanatory variables of Table 2, and replaces the dependent variables with the percentage changes in market capitalization from 2012 to 2016, and as a robustness test to 2015, as the public coverage of Choigate began in fall 2016. The market capitalization of chaebol companies did not increase relatively more and was even significantly negative when firm size was taken into account. Firms connected to Park or to government agencies were not associated with a higher increase in market value. Across all model specifications, firms connected to Moon were associated with a significantly lower increase in market value at the 95-percent confidence interval. This suggests that the market value of small firms with opposition connections suffered during the Park administration.

Choigate and the analysis of the long-term development of market capitalization during the Park administration highlight the crucial role of direct personal connections to political leaders. Personal ties were already important in the Lee administration (Schoenherr 2018). Our event study suggests that Lee-related contacts were not considered to be profitable in the future, and Lee's "MB men" were indeed replaced by the incoming Park administration. Choi's influence on Park to subvert the government's agenda to favor Choi's small organizations and corporations fits with our findings; investors considered direct personal connections to the government to be relevant for the profitability of small Korean firms, and at least small publicly-traded companies connected to Moon in 2012 experienced reduced profitability during the Park administration.

5. Conclusion

It's a South Korean reality that if there is a government request, it is difficult for companies to decline (Lee and Chae 2016).

– Huh Chang-soo, chairman of GS Group and the Federation of Korean Industries

Rent-seeking is a traditional research program in political science. Scholars have utilized the event study approach to reveal the economic benefits of political connections in the aftermath of an unexpected political event. Event studies overwhelmingly show that political connections matter for corporations, but these studies are based on alternating, singular measurements of political connections. Moreover, they do not link their results to the structure of a country's political economy.

This article tries to increase the scientific leverage of event studies by examining several connections between business and government in an event study framework, because the relevance of different connections depends on distinct features of the political economy. This approach could become an important tool in the contested study of institutional change, which currently often lacks the toolset to quantitatively evaluate whether political economy institutions are evolving (Capoccia 2016).

We illustrate this potential by applying the event study framework to the Korean political economy, which was historically shaped by close connections between the state and big business. With the return of the conservatives to power after the presidential and legislative elections of 2007 and 2008, Kalinowski (2009) argues that the government serves the interest of big business, and Korea has become a Chaebol Republic. By contrast, Pirie (2012) argues that Korea is a Hybrid

Regime in which the state is able to retain some degree of autonomy to advance its own agenda. The 2012 Korean presidential and parliamentary elections, which resulted in unexpected conservative victories, provide a unique research opportunity to conduct an event study to evaluate the structure of Korea's political economy. In contrast to previous studies that are often based on singular measurements of political connections, we identify several types of connections. Our findings show that the family-run conglomerates, the chaebol, did not benefit relatively from the conservative election victories. Connections to government agencies did not appear to be profitable, but direct personal connections to political leaders were still considered relevant for the profitability of small firms.

The corruption scandal that toppled the Park administration in 2017 revealed that the state had the autonomy to force large conglomerates to benefit personal associates. Chaebols were not relatively more profitable during the Park administration, while small firms with the wrong political connections suffered in their market value. Thus, Korea has not become a Chaebol Republic, but direct personal connections are still crucial in Korean politics.

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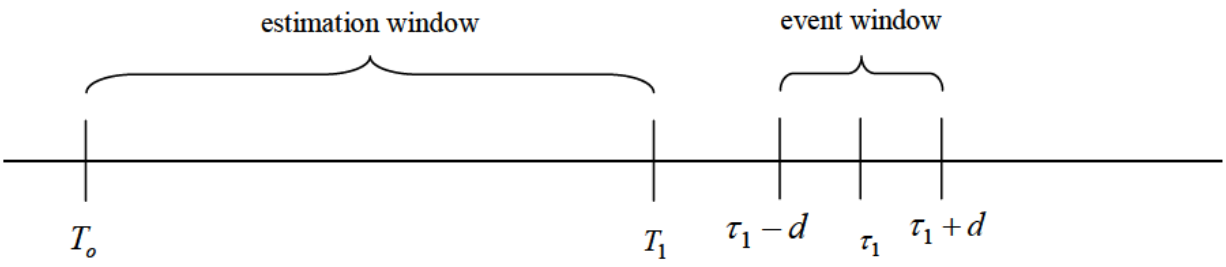

Figure 1: Estimation and event windows of an event study

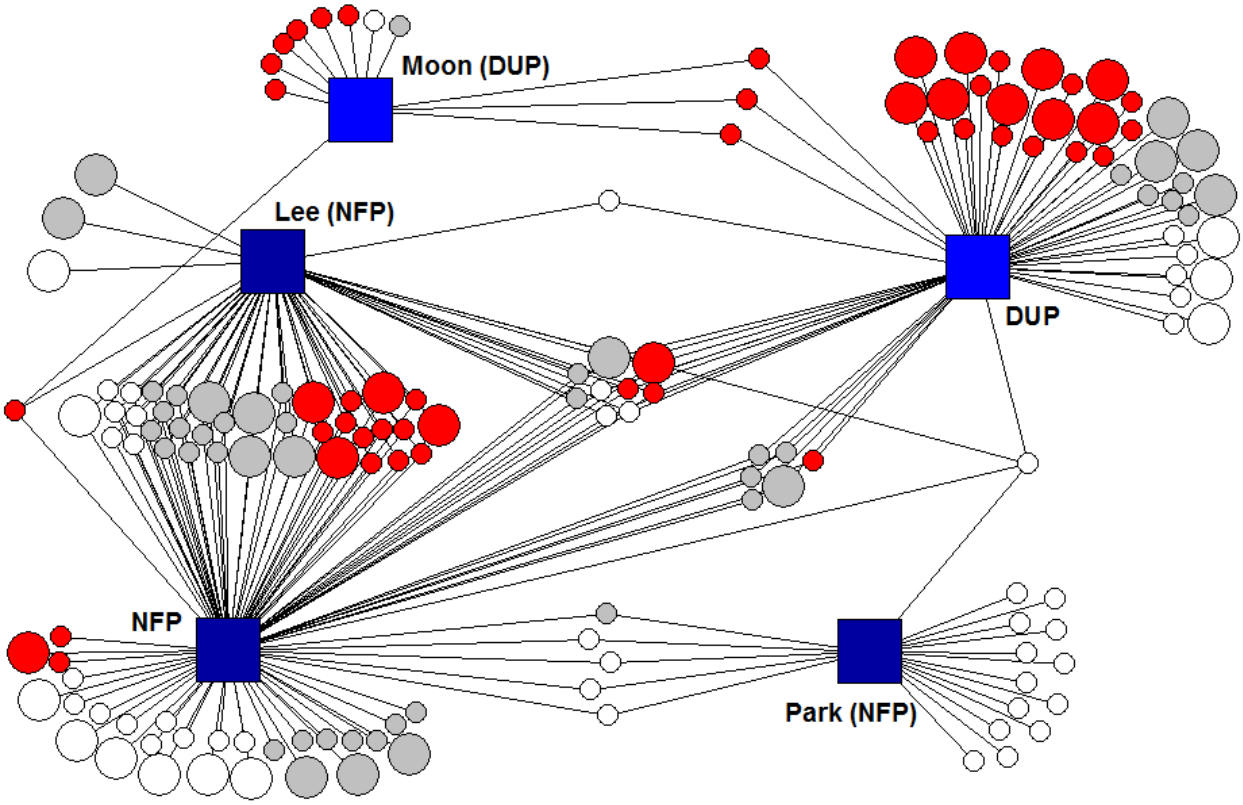

Figure 2: Profitability of political connections

The graph is based on Ucinet (Borgatti et al. 2002). A white circle indicates positive abnormal returns for both event windows after the presidential election, a red circle negative abnormal returns, and a grey circle mixed abnormal returns. Larger squares are chaebol-affiliated companies.

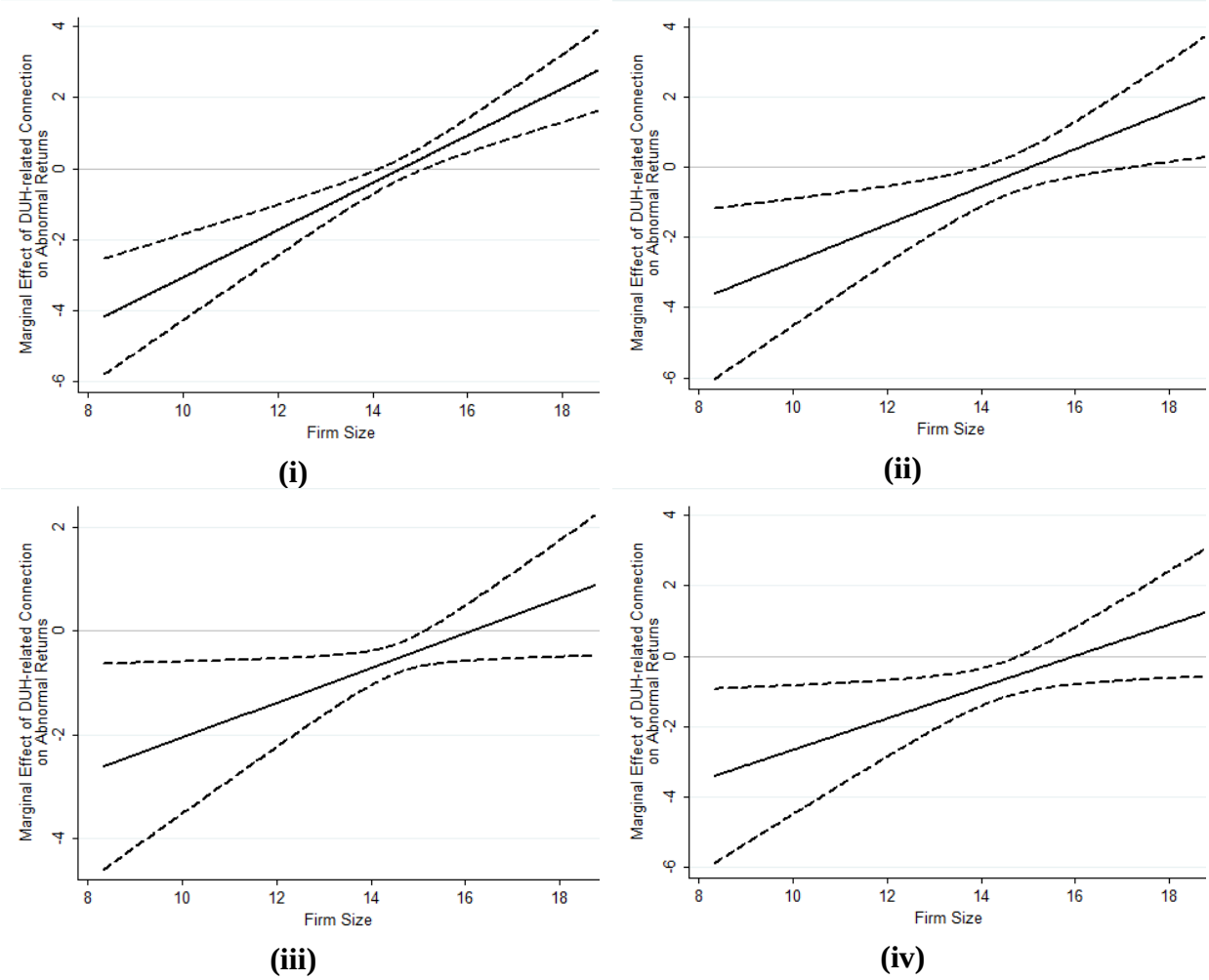

Figure 3: Interaction effect of DUP-related connections dependent on firm size

Dashed lines give 90% confidence interval. Results based on Appendix Table 3. Model (i) is based on the opening price after the presidential election as dependent variable, Model (ii) on the closing price after the presidential election, Model (iii) on the opening price after the parliamentary election, and Model (iv) on the closing price after the parliamentary election.

Table 1: Descriptive statistics

	Obs.	Mean	Std. Dev.	Min	Max	Chaebol
AR, 20 December 2012 – open	700	0.053	2.68	-16.99	14.78	-0.063
AR, 20 December 2012 – close	700	0.171	3.71	-18.12	15.27	0.114
AR, 12 April 2012 – open	723	0.141	2.72	-17.35	14.51	0.266
AR, 12 April 2012 – close	723	0.372	5.48	-17.31	114.30	0.544
Chaebol	732	0.191	0.39	0	1	-
Park-related	732	0.025	0.15	0	1	**0**
Moon-related	732	0.016	0.13	0	1	0
Lee-related	732	0.074	0.26	0	1	0.100
NFP-related	732	0.168	0.51	0	4	0.171
DUP-related	732	0.087	0.31	0	2	**0.171**
Government Ties	732	1.201	1.47	0	9	**1.993**
Firm Size	704	12.15	1.79	8.33	18.74	**13.82**
Return of Assets	701	0.033	0.08	-0.46	0.75	0.033
Debt Ratio	706	0.266	0.19	0	0.85	0.293

Bold entries indicate that entries of chaebols are significantly different from other firms based on a 95 percent confidence level. Abnormal returns are unavailable if the shares of a company were not traded before and after the elections.

Table 2: OLS regression analyses to explain abnormal returns

	1 Pres Open	2 Pres Open	3 Pres Close	4 Pres Close	5 Parl Open	6 Parl Open	7 Parl Close	8 Parl Close
Chaebol	0.05	-0.05	0.15	0.21	0.13	0.21	0.20	-0.25
	[0.28]	[0.24]	[0.68]	[0.78]	[0.83]	[0.99]	[0.76]	[0.61]
Park-related	9.80***	9.87***	12.38***	12.42***	6.03***	6.23***	5.86***	6.17***
	[8.63]	[8.71]	[15.68]	[14.62]	[3.45]	[3.57]	[3.54]	[3.71]
Moon-related	-7.29***	-7.36***	-5.36**	-5.44**	-8.45***	-8.53***	-7.73***	-7.74***
	[3.21]	[3.25]	[2.21]	[2.20]	[4.38]	[4.48]	[2.94]	[2.98]
Lee-related	0.25	0.24	-0.89	-1.05	-0.65	-0.57	-0.65	-0.52
	[0.68]	[0.62]	[1.36]	[1.57]	[1.31]	[1.06]	[1.19]	[0.94]
NFP-related	-0.09	-0.11	0.60**	0.65**	0.57**	0.54*	0.42	0.30
	[0.43]	[0.48]	[2.33]	[2.24]	[1.98]	[1.74]	[1.59]	[1.07]
DUP-related	-0.60**	-0.63**	-0.68*	-0.74*	-0.89***	-0.83***	-1.04***	-1.03***
	[2.30]	[2.38]	[1.74]	[1.91]	[3.33]	[3.14]	[2.80]	[2.72]
Government Ties	0.02	-0.04	0.16*	0.08	0.15***	0.16***	0.16	0.04
	[0.46]	[0.70]	[1.87]	[0.73]	[2.78]	[2.63]	[1.35]	[0.24]
Firm Size		0.02		-0.07		-0.04		0.26**
		[0.29]		[0.71]		[0.75]		[2.26]
Return of Assets		-0.66		-3.61*		0.39		1.15
		[0.63]		[1.73]		[0.27]		[0.48]
Debt Ratio		0.07		-0.76		-0.35		1.67
		[0.17]		[1.10]		[0.83]		[1.25]
Agriculture,		0.10		0.40		-0.50		-0.24
Forestry, Fishing		[0.34]		[0.75]		[1.20]		[0.25]
Mining		0.19		1.16**		-0.40		-1.14*
		[0.61]		[2.10]		[0.94]		[1.72]
Construction		-0.35*		-0.04		-0.55**		-1.16**
		[1.91]		[0.15]		[2.44]		[2.07]
Transportation,		0.55		0.58		0.05		-0.70
Services		[1.53]		[1.37]		[0.17]		[1.20]
Wholesale Trade		-0.08		-0.28		-0.80*		-1.23**
		[0.22]		[0.59]		[1.78]		[2.01]
Retail Trade		0.31		1.85***		-0.03		-1.32**
		[1.28]		[3.79]		[0.15]		[2.12]
Finance, Insurance		0.16		0.36		-0.44		-0.20
and Real Estate		[0.53]		[0.53]		[1.01]		[0.35]
Services		0.21		1.96*		0.40		-0.03
		[1.02]		[1.76]		[0.44]		[0.03]
N	700	683	700	683	723	693	723	693
R-squared	0.4786	0.4915	0.3410	0.3748	0.3247	0.3412	0.0711	0.0878

* $p \leq 0.10$; ** $p \leq 0.05$; *** $p \leq 0.01$. Absolute t-values are in parentheses. The dummy for Manufacturing is excluded due to perfect multicollinearity.

Table 3: OLS regression analyses to explain abnormal returns for individual chaebol

	1 Pres Open	2 Pres Close	3 Parl Open	4 Parl Close
Samsung Group	0.65***	1.02**	0.25	-0.34
	[3.04]	[2.08]	[0.43]	[0.46]
Hyundai	-0.11	0.44	0.25	0.05
	[0.27]	[0.96]	[1.00]	[0.10]
SK Group	0.02	0.61	0.32	-0.49
	[0.07]	[1.18]	[0.69]	[0.71]
LG Group	0.12	0.13	0.24	-1.12
	[0.28]	[0.24]	[0.64]	[1.32]
Lotte	-0.95	-0.04	-1.28	0.03
	[0.98]	[0.07]	[1.14]	[0.06]
GS Group	0.34	0.51	1.40**	-0.34
	[0.87]	[0.66]	[2.02]	[0.19]
Hanjin	-0.80*	-0.75	-0.29	0.20
	[1.73]	[1.20]	[0.71]	[0.26]
Hanwha	-0.83	0.37	0.66*	0.89
	[1.55]	[0.88]	[1.90]	[1.29]
Doosan	-0.14	-0.16	-0.17	-0.18
	[0.28]	[0.28]	[0.45]	[0.23]
STX	-0.19	0.03	-0.56	-1.33
	[0.60]	[0.04]	[1.14]	[1.09]
CJ Group	-0.23	-0.80	-0.29	-0.10
	[0.30]	[0.96]	[0.55]	[0.08]
LS Group	-1.15***	-1.11***	-0.28	-0.92
	[3.22]	[3.05]	[1.31]	[1.43]
Kumho	-0.86**	-2.09*	0.27	-2.44***
	[2.50]	[1.74]	[0.88]	[2.71]
Shinsegae	0.41	-0.15	1.52**	1.64
	[1.19]	[0.21]	[2.39]	[1.53]
Dongbu	-0.13	1.24	0.29	0.26
	[0.24]	[1.25]	[0.65]	[0.28]
Daelim	2.26	1.79	0.36	0.26
	[0.89]	[1.07]	[0.71]	[0.20]
N	683	683	693	693
R-squared	0.5024	0.3831	0.3493	0.0912

* $p \leq 0.10$; ** $p \leq 0.05$; *** $p \leq 0.01$. Absolute t-values are in parentheses. The coefficient of the other control variables are not shown. The dummy for the service sector was removed due to perfect multicollinearity.

Table 4: OLS regression analyses to explain percentage change in market capitalization during the Park administration

	1 ΔMarket Cap 2012-2016	2 ΔMarket Cap 2012-2016	3 ΔMarket Cap 2012-2015	4 ΔMarket Cap 2012-2015
Chaebol	-11.96	-33.37*	-21.48	-48.00**
	[0.75]	[1.96]	[1.26]	[2.39]
Park-related	-23.04	-14.02	-18.50	-17.63
	[1.03]	[0.56]	[0.69]	[0.52]
Moon-related	-48.49***	-47.86**	-42.57**	-49.46**
	[2.97]	[2.35]	[2.29]	[2.24]
Lee-related	-32.52	-31.42	-19.31	-19.46
	[1.61]	[1.56]	[1.01]	[0.93]
NFP-related	-8.86	-14.82	-4.89	-9.92
	[0.69]	[0.97]	[0.41]	[0.80]
DUP-related	-18.37	-22.71	-10.70	-17.86
	[1.24]	[1.38]	[0.80]	[1.19]
Government Ties	-2.16	-3.66	-6.70	-8.51
	[0.35]	[0.57]	[1.27]	[1.46]
Firm Size		9.76*		9.70*
		[1.94]		[1.78]
Return of Assets		-105.38		-249.97**
		[1.21]		[1.99]
Debt Ratio		-75.34*		-99.75**
		[1.82]		[2.54]
Agriculture, Forestry, Fishing		-65.64***		-72.31***
		[3.17]		[2.92]
Mining		7.02		-12.77
		[0.14]		[0.37]
Construction		-22.85		-23.07
		[1.40]		[1.34]
Transportation, Services		11.03		18.57
		[0.39]		[0.55]
Wholesale Trade		-3.59		31.96
		[0.12]		[0.62]
Retail Trade		-22.19		4.22
		[0.99]		[0.18]
Finance, Insurance and Real		-40.83*		-50.30**
Estate		[1.66]		[2.38]
Services		-107.40***		-108.23***
		[4.64]		[5.31]
N	675	646	681	652
R-squared	0.0114	0.0309	0.0115	0.0402

* $p \leq 0.10$; ** $p \leq 0.05$; *** $p \leq 0.01$. Absolute t-values are in parentheses. The dummy for Manufacturing is excluded due to perfect multicollinearity.

Appendix

Appendix Table 1: Chronological survey of previous event studies on the impact of political connections

Study	Number and Type of Connection	Definition of Political Connection	Number of Event	Type of Event	Main Findings
Roberts (1990a)	Singular: Policy platforms	U.S. firms with manufacturing plants located in the State of Washington	1	Death of Democrat Henry Jackson from Washington, member of the Armed Service Committee	The death of Jackson lowered stock returns of firms located in Washington
Roberts (1990b)	Singular: Policy platforms	58 largest U.S. defense contractors	2	The 1980 U.S. presidential and senate elections	Republican control of the Senate and White House increased returns of defense firms
Herron et al. (1999)	Singular: Policy platforms	15 sectors based on candidates' campaign pledges	1	The 1992 U.S. presidential election	The election outcome affected stock values of politically sensitive economic sectors/firms
Fisman (2001)	Singular: Personal connections	79 Indonesian firms affiliated with Indonesian president Suharto's family and political allies	6	Negative health news about Suharto	Firms connected to president Suharto lost value when the market received bad news regarding his health
Johnson and Mitton (2003)	Singular: Personal connections	Malaysian firms with personal relationships to Prime Minister Mahathir or his allies	2	The imposition of capital controls and the Asian Financial Crisis	Malaysian firms connected to Prime Minister Mahathir experienced positive returns when the government introduced capital controls

Jayachandran (2006)	Singular: Money contributions	U.S. firms that made monetary contributions to political parties	1	The Democratic Party gained control over the Senate due to Jeffords' party switch	Donation to Democrats or Republicans was associated with a firm's stock value in reaction to the event
Knight (2006)[7]	Singular: Policy platforms	70 U.S. firms that were expected to benefit from the candidate's campaign platform	1	The 2000 U.S. presidential election	U.S. presidential candidates' policy platforms were capitalized into equity rents for 70 politically-sensitive firms
Claessens et al. (2008)	Singular: Money Contributions	Firms that made monetary contributions to candidates	2	The 1998 and 2002 Brazilian elections	Brazilian firms that contributed to elected federal deputies experienced higher stock returns
Goldman et al. (2009)	Singular: Personal connections	The former political careers of each board member of Standard & Poor 500 firms	2	The 2000 U.S. presidential election and the announcement of the board nomination	Stock returns of firms with board members connected to Republicans (Democrats) responded positively (negatively). Nomination of politically connected board member increased stock returns
Bechtel and Füss (2010)	Singular: Money Contributions	German firms in different sectors that made campaign contributions to political parties	4	German parliamentary elections from 1991 to 2005	The electoral prospects of parties influenced returns of firms in different sectors
Shon (2010)	Singular:	U.S. firm- and industry-level	1	The Florida recount period of the 2000	Stock returns of connected firms to Bush (Gore) responded

[7] Knight (2006)'s supplementary analysis of campaign contributions confirms his baseline model.

	Money Contributions	contributions to Bush and Gore		presidential election	positively (negatively)
Imai and Shelton (2011)	Singular: Policy platforms	Taiwanese firms that invested in mainland China	1	The 2008 Taiwanese presidential election	The electoral victory of the Kuomintang had a positive effect for firms investing in mainland China.
Gaikwad (2013)	Singular: Money contributions	PAC contributions of U.S. firms to Democrats and Republicans	1	Killing of Osama Bin Laden	Stock returns of firms that had previously donated to Democrats (Republicans) increased (decreased) in reaction to the event
Acemoglu et al. (2016)[8]	Singular: Personal connections	U.S. firms with personal links to Timothy Geithner	1	The announcement of Timothy Geithner as nominee for Treasury Secretary	Geithner's appointment led to positive returns for firms with personal connections to Geithner

[8] Although Acemoglu et al. (2016) distinguish between "Schedule", "Personal", and "New York" connections, all of them are personal connections to Geithner.

Appendix Table 2: OLS regression analyses to explain abnormal returns with a broader definition for candidate connections

	1 Pres Open	2 Pres Open	3 Pres Close	4 Pres Close	5 Parl Open	6 Parl Open	7 Parl Close	8 Parl Close
Chaebol	-0.24	-0.20	-0.21	0.01	-0.03	0.11	0.05	-0.34
	[1.25]	[0.85]	[0.84]	[0.02]	[0.17]	[0.53]	[0.19]	[0.83]
Park-related	5.33***	5.37***	5.77***	5.76***	2.42**	2.53**	2.81***	2.76**
	[4.82]	[4.98]	[4.99]	[4.97]	[2.18]	[2.27]	[2.67]	[2.59]
Moon-related	-7.52***	-7.70***	-5.66**	-5.87**	-8.59***	-8.75***	-7.86***	-7.95***
	[3.32]	[3.34]	[2.34]	[2.33]	[4.47]	[4.54]	[3.00]	[3.05]
Lee-related	0.90**	0.94**	-0.29	-0.40	-0.40	-0.27	-0.30	-0.16
	[1.97]	[1.97]	[0.39]	[0.53]	[0.73]	[0.46]	[0.49]	[0.26]
NFP-related	-0.44	-0.42	0.30	0.41	0.45	0.44	0.24	0.15
	[1.38]	[1.26]	[0.73]	[0.95]	[1.46]	[1.30]	[0.73]	[0.44]
DUP-related	-0.61**	-0.65**	-0.69*	-0.79*	-0.88***	-0.84***	-1.03***	-1.04***
	[2.07]	[2.04]	[1.77]	[1.96]	[3.08]	[2.87]	[2.75]	[2.70]
Government Ties	-0.07	-0.05	0.06	0.07	0.10*	0.15**	0.11	0.03
	[1.10]	[0.72]	[0.68]	[0.65]	[1.67]	[2.04]	[0.91]	[0.18]
Firm Size		-0.10		-0.21**		-0.11*		0.19
		[1.65]		[2.08]		[1.72]		[1.59]
Return of Assets		-1.42		-4.58**		-0.08		0.69
		[1.26]		[2.02]		[0.06]		[0.28]
Debt Ratio		0.31		-0.44		-0.23		1.77
		[0.59]		[0.56]		[0.49]		[1.32]
Agriculture,		-0.02		0.20		-0.59		-0.32
Forestry, Fishing		[0.08]		[0.35]		[1.40]		[0.34]
Mining		-0.24		0.70		-0.58		-1.34**
		[0.53]		[1.28]		[1.18]		[1.99]
Construction		-0.21		0.13		-0.45*		-1.06*
		[1.00]		[0.40]		[1.86]		[1.86]
Transportation,		0.42		0.40		-0.01		-0.76
Services		[1.02]		[0.86]		[0.04]		[1.31]
Wholesale Trade		0.62		0.63		-0.32		-0.76
		[1.24]		[0.88]		[0.64]		[1.17]
Retail Trade		0.22		1.71***		-0.08		-1.35**
		[0.73]		[3.29]		[0.31]		[2.12]
Finance, Insurance		0.24		0.46		-0.37		-0.13
and Real Estate		[0.74]		[0.65]		[0.94]		[0.24]
Services		0.18		1.90*		0.37		-0.05
		[0.95]		[1.84]		[0.41]		[0.05]
N	700	683	700	683	723	693	723	693
R-squared	0.2791	0.2965	0.1464	0.1825	0.2341	0.2467	0.0527	0.0668

* $p \leq 0.10$; ** $p \leq 0.05$; *** $p \leq 0.01$. Absolute t-values are in parentheses. The dummy for Manufacturing is excluded due to perfect multicollinearity.

Appendix Table 3: OLS regression analyses to explain abnormal returns with an interaction term of DUP-related and Firm Size, graphically shown in Figure 3

	1 Pres Open	2 Pres Close	3 Parl Open	4 Parl Close
Interaction Term	0.68***	0.59**	0.31*	0.48**
	[4.34]	[2.54]	[1.66]	[2.00]
DUP-related * Firm Size				
Chaebol	-0.02	0.15	0.19	-0.31
	[0.09]	[0.56]	[0.92]	[0.74]
Park-related	9.75***	12.53***	6.36***	6.26***
	[8.45]	[15.57]	[3.56]	[3.73]
Moon-related	-6.83***	-4.99**	-8.39***	-7.42***
	[3.12]	[2.10]	[4.51]	[2.91]
Lee-related	-0.25	-0.20	0.24	-0.21
	[0.55]	[0.26]	[0.43]	[0.27]
NFP-related	0.13	0.12	0.15	-0.07
	[0.74]	[0.49]	[0.77]	[0.25]
DUP-related	-10.02**	-9.13***	-4.98*	-7.54**
	[4.43]	[2.67]	[1.80]	[2.18]
Government Ties	-0.00	0.12	0.16***	0.07
	[0.00]	[1.16]	[2.71]	[0.42]
Firm Size	-0.05	-0.11	-0.07	0.23**
	[1.00]	[1.09]	[1.20]	[2.00]
Return of Assets	-1.08	-4.23**	0.16	0.79
	[1.16]	[2.08]	[0.11]	[0.32]
Debt Ratio	0.18	-0.63	-0.33	1.75
	[0.41]	[0.92]	[0.76]	[1.32]
Agriculture, Forestry, Fishing	0.07	0.37	-0.56	-0.23
	[0.23]	[0.69]	[1.36]	[0.24]
Mining	0.25	1.33**	-0.34	-1.05
	[0.81]	[2.51]	[0.78]	[1.55]
Construction	-0.28	0.05	-0.51**	-1.11**
	[1.60]	[0.17]	[2.32]	[2.01]
Transportation, Services	0.43	0.59	0.01	-0.70
	[1.21]	[1.36]	[0.02]	[1.20]
Wholesale Trade	-0.05	-0.31	-0.86*	-1.27**
	[0.15]	[0.68]	[1.92]	[2.13]
Retail Trade	0.22	1.71***	-0.10	-1.39**
	[0.88]	[3.36]	[0.41]	[2.19]
Finance, Insurance and Real	0.13	0.47	-0.39	-0.09
Estate	[0.48]	[0.68]	[0.91]	[0.16]
Services	0.54	2.17*	0.57	0.24
	[1.54]	[1.77]	[0.60]	[0.24]
N	683	683	693	693
R-squared	0.5142	0.3828	0.3396	0.0899

* $p \leq 0.10$; ** $p \leq 0.05$; *** $p \leq 0.01$. Absolute t-values are in parentheses. The dummy for Manufacturing is excluded due to perfect multicollinearity.